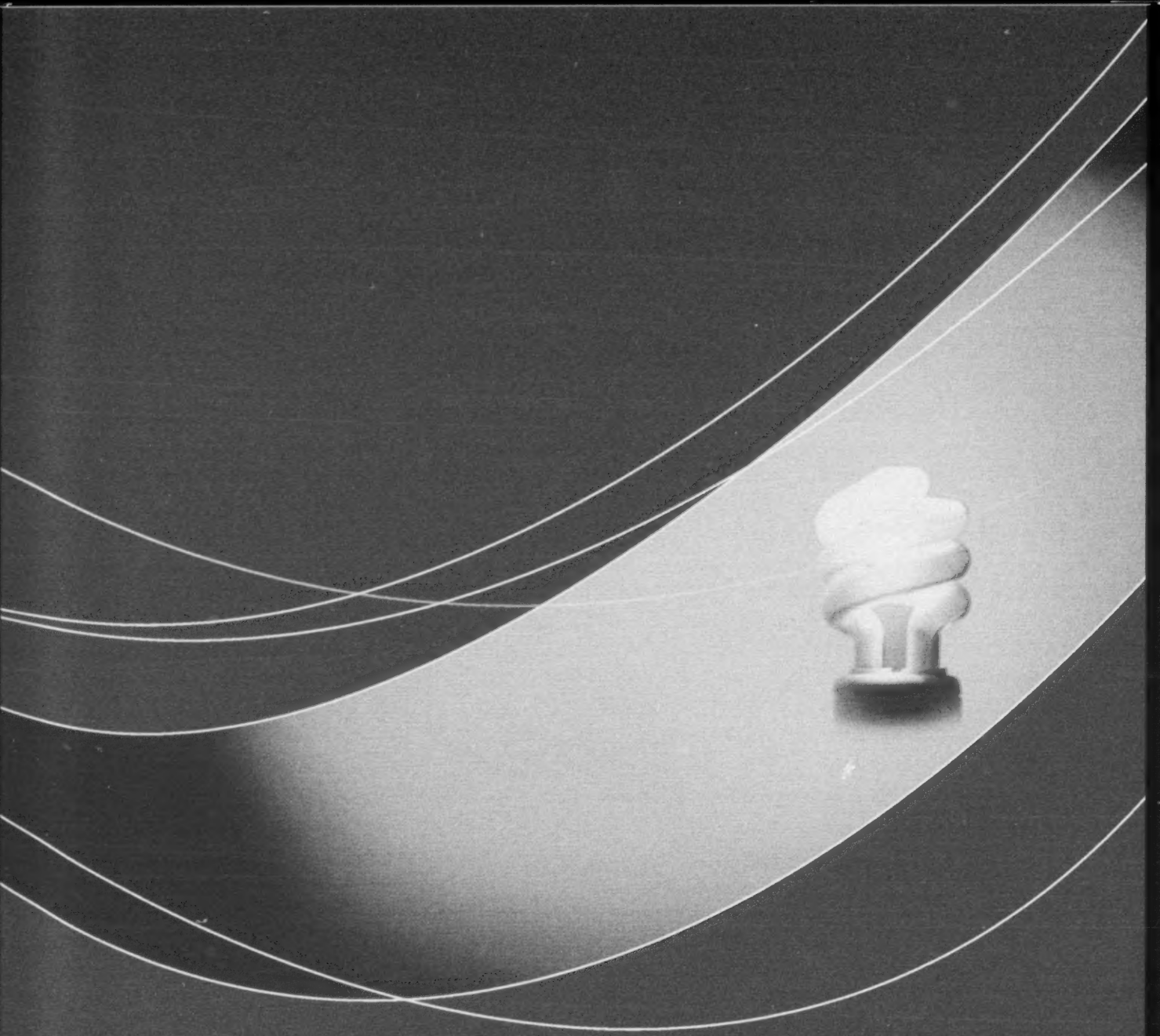


Efficient, Affordable and Equitable:
Creating a Brighter Future
for the Northwest Territories' Electricity System

May 2010

Northwest Territories Canada

MESSAGE FROM THE MINISTERIAL ENERGY COORDINATING COMMITTEE

The high cost of power and its impact on the cost of living in the Northwest Territories is an issue that has been raised by residents, businesses and communities. Communities have stated many times that they require reasonable access to electricity if they are to have an opportunity to succeed.

In response to these concerns, the Government of the Northwest Territories (GNWT) launched an Electricity Review process in December 2008. In response to requests from communities and Members of the Legislative Assembly, a review of the Northwest Territories Power Corporation (NTPC) was launched in June 2009. Both reviews were conducted by independent panels, and on behalf of the GNWT, we would like to acknowledge these panels for their work.

We would also like to acknowledge the close working relationship we had with all Members of the Legislative Assembly through the Standing Committee on Priorities and Planning. The committee provided considerable input and we spent a great deal of time debating the issues addressed in this report.

We are pleased to present the response of the GNWT. The title, *"Efficient, Affordable, and Equitable: Creating a Brighter Future for the Northwest Territories Electricity System"*, reflects the key principles that drive our vision for the NWT electricity system. Our electricity system must be as efficient as possible and affordable for all communities in the NWT.

Both the Electricity Review and NTPC Review discussed the single largest challenge in the provision of electricity services – a lack of economies of scale. Our electricity loads are small and spread over a vast distance, which presents challenges that exist in no other province or territory in Canada other than Nunavut. To address these challenges, it is critical that we have a territory-wide system that works for all.

May 2010

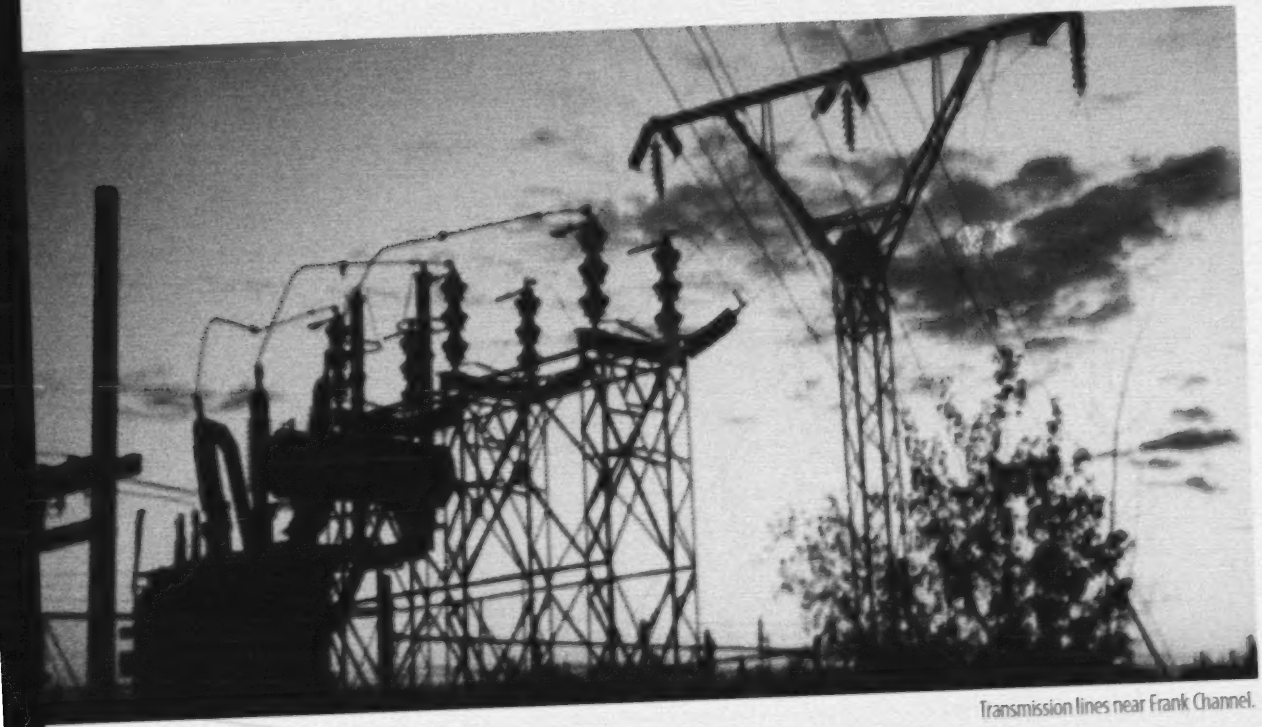
The Honourable
Bob McLeod
Minister of Industry,
Tourism and Investment
Minister Responsible
for Energy Initiatives

The Honourable
Floyd Roland
Minister Responsible
for the Northwest Territories
Power Corporation

The Honourable
J. Michael Miltenberger
Minister of Environment
and Natural Resources

The Honourable
Michael McLeod
Minister of Public Works
and Services

Napie Falls on the Taltson River system.



Transmission lines near Frank Channel.

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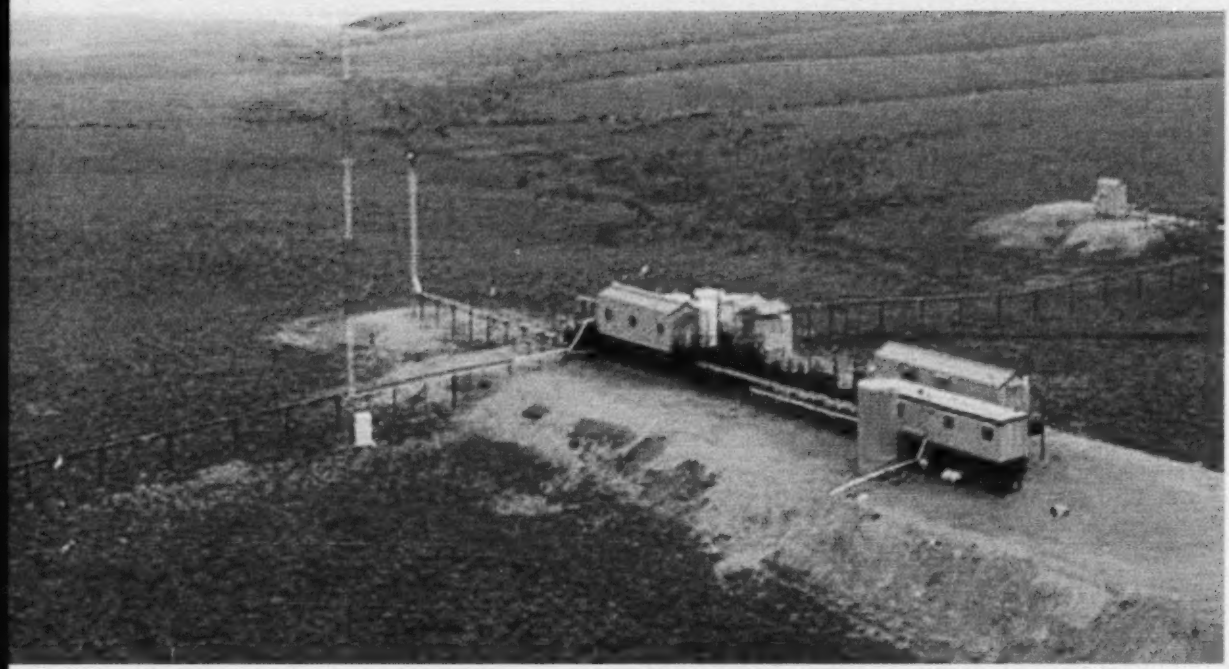
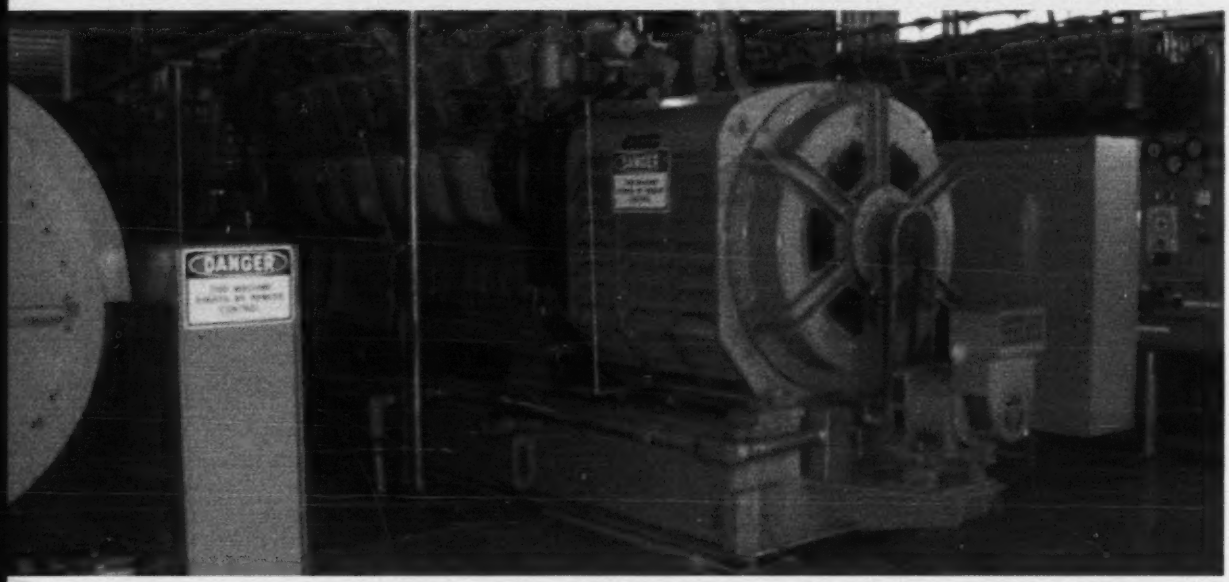


An aerial view of the Ikhil production facility that supplies Inuvik with natural gas.



Generators at the Fort Smith power plant.

EXECUTIVE SUMMARY

The Government of the Northwest Territories response is focused on actions to simplify the electrical system, make it more affordable and provide equitable access to electricity services for all community residents and businesses in the Northwest Territories. While diverse in geography, culture and people, the NWT is a territory and the electricity system requires a territory-wide approach.

The need for affordable power in NWT communities has long been a GNWT priority. This is reflected in the first principle cited in the 2007 NWT Energy Plan, Energy for the Future: An Energy Plan for the Northwest Territories.

"Reliable and affordable energy should be available in all NWT communities."

In December 2008 the GNWT released a discussion paper that set the context for a Review of Electricity Regulation, Rates and Subsidy Programs in the NWT (Electricity Review). The GNWT then appointed an independent Electricity Review Team to publicly discuss electricity system issues and provide the GNWT with recommendations. This panel conducted an extensive public hearing process and released a report that presented 39 recommendations regarding the future approach to the NWT electricity system.

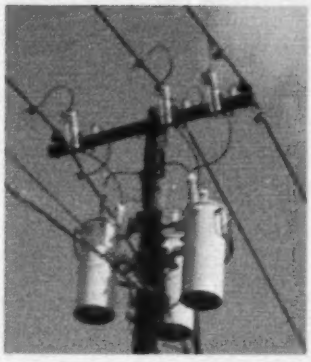
At the same time, many residents, the NWT Association of Communities and Members of the Legislative Assembly were asking for a review of the Northwest Territories Power Corporation (NTPC). Premier Roland, as Minister Responsible for NTPC, appointed an independent panel to conduct an operational review of NTPC. This panel examined the operational efficiency, corporate efficiency, and mandate of NTPC, releasing its report in January 2010 (NTPC Review).

This report represents the Government of the Northwest Territories' comprehensive response to the Electricity and the NTPC reviews. The focus of this response is on government actions. Through these actions the GNWT will take a leadership role to ensure our electricity system is efficient, affordable, and that residents and businesses of the Northwest Territories have equitable access to electricity.

Transmission lines.

The Government's actions are organized into five areas:

i. Vision and Principles
ii. Electricity Rates
iii. Affordability and the Territorial Power Subsidy Program
iv. Electricity Regulation
v. Industry Structure and NTPC Operations



A power pole and transmission lines.

Vision And Principles

Safe, reliable and affordable electricity will be available through a territory-wide electricity system that is efficient, reflects the essential nature of electricity services for NWT communities and promotes energy conservation.

The Government of the Northwest Territories' vision for the electricity system is supported by six guiding principles. These principles outline the Government's commitment to provide an efficient, affordable and equitable electricity system for all of the businesses and residents in the Northwest Territories.

I. Recognizing the essential nature of electricity services in NWT communities, community residents and businesses should have a comparable level of access to affordable electricity services.

II. Affordable electricity is best achieved through energy conservation and an efficient electricity system that utilizes local sources of energy for electricity generation.

III. The GNWT will play a leadership role in developing new energy technologies and local sources of electricity supply.

IV. Community electricity services benefit from an efficient and unified territory-wide system that maximizes economies of scale.

V. The development of NWT energy resources is best done in partnership with Aboriginal organizations.

VI. Electricity rates should be established through a transparent public process.

Electricity Rates

As reflected in the Vision and Principles, electricity should be considered a service that is essential to residents and businesses in the Northwest Territories. Regardless of community, residents and businesses should have a comparable opportunity to succeed and this requires a comparable level of access to electricity. To support this objective, the GNWT will issue Rate Policy Guidelines to the Public Utilities Board (PUB). The guidelines will:

- Set electricity rates on a zone basis, as shown in Table 1.
- Maintain current rates to government customers, to facilitate the transition to a new rate structure.
- Share utility overhead costs among all of the rate zones, per utility, equally weighted by energy sales on a kilowatt hour basis.
- Establish territoryw -wide fuel and low water rate riders.
- Reduce the return earned by the Northwest Territories Power Corporation in thermal communities over time.
- Ensure rates for the Northwest Territories Power Corporation customers, following the initial rate adjustments, will not exceed the rates and applicable rate riders (or the total rate) as of October 1, 2009.
- Implement the Rate Policy Guidelines by October 1, 2010 for the Northwest Territories Power Corporation.

The Bear River located in the Sahtu region of the NWT.

Table 1

Electricity Rate Policy Guideline Electricity Rate Zones

Community	Zone
Colville Lake, Nahanni Butte, Sachs Harbour, Jean Marie River, Gameti, Paulatuk, Wrigley, Tsiigehtchic, Tulita, Whati, Déljne, Łutselk'e, Fort McPherson, Ulukhaktok, Fort Good Hope, Tuktoyaktuk, Fort Liard, Fort Simpson, Aklavik, Inuvik	NTPC Thermal
Norman Wells	NTPC Norman Wells
Fort Smith, Fort Resolution	NTPC Taltson
Dettah, Behchokǫ̀	NTPC Snare
Fort Providence, Dory Point/Kakisa, Wekweètì, Trout Lake	NUL (NWT) Thermal
Hay River, Hay River Reserve, Enterprise	NUL (NWT) Hydro
Yellowknife	NUL (YK)

In addition to providing Rate Policy Guidelines, the GNWT will implement further change to ensure an equitable electricity system and that no one community or group of communities will bear the burden of implementing change. Additional actions will include:

- The GNWT will pay $6 million towards existing NTPC rate stabilization funds to reduce current rate riders and provide transitional support to the new electricity rate system.
- The GNWT will forgo the annual NTPC dividend of $3.5 million for 2010-11 and 2011-12 to provide transitional support to the new rate system.
- NTPC community electricity rates will be frozen until at least the 2012-13 fiscal year.
- The Public Utilities Board will be asked to examine options to simplify electricity bills.
- A detailed approach to the Northlands Utility companies and electricity rates will be developed, in consultation with Northland Utilities (Yellowknife) and Northland Utilities (Northwest Territories), by the fall of 2010.

A representative sample of the impact on community residential and commercial electricity rates is shown below:

Table 2

Residential Electricity Rate Comparison and Bill Comparison for 1,000 kWh Consumption

	Residential Electricity Rate Comparison			Residential Bill Comparison (1,000 kWh)		
Community	Current Total Rate (¢/kWh)	Revised Total Rate (¢/kWh)	Rate Difference (¢/kWh)	Current Total Bill TPSP 700 kWh	Revised Total Bill TPSP 1,000 kWh	Monthly Bill Difference
Nahanni Butte	166.40	49.00	- 117.40	$717	$254	-$463
Déljne	83.20	49.00	- 34.20	$455	$254	-$201
Tuktoyaktuk	70.80	49.00	- 21.80	$416	$254	-$162
Fort Simpson	73.45	49.00	- 24.45	$424	$254	-$170
Inuvik	60.35	49.00	- 11.35	$383	$254	-$129
Yellowknife	22.37	22.37	0.00	$265	$265	$0

Note: The electricity rates shown include only the energy charge and rate riders. The electricity bills include all charges, taxes and franchise fees.

Table 3
Commercial Electricity Rate Comparison and Bill Comparison for 4,000 kWh Consumption

	Commercial Electricity Rate Comparison			Commercial Bill Comparison (4,000 kWh)		
Community	Current Total Rate (¢/kWh)	Revised Total Rate (¢/kWh)	Rate Difference (¢/kWh)	Current Total Bill	Revised Total Bill	Monthly Bill Difference
Nahanni Butte	214.65	42.00	-172.65	$9,099	$1,829	-$7,270
Déljne	78.51	42.00	-36.51	$3,381	$1,829	-$1,552
Tuktoyaktuk	62.86	42.00	-20.86	$2,724	$1,829	-$895
Fort Simpson	64.35	42.00	-22.35	$2,787	$1,829	-$958
Inuvik	53.68	42.00	-11.68	$2,339	$1,829	-$510
Yellowknife	17.87	17.87	0.00	$867	$867	$0

Note: The electricity rates shown include only the energy charge and rate riders. The electricity bills include all charges, taxes and franchise fees.

Affordability and the Territorial Power Subsidy Program

Through the Territorial Power Subsidy Program (TPSP), the GNWT provides equitable access to electricity for all NWT communities. The program, initially developed in the late 1980s, needs to be updated:

- Effective October 1, 2010, the TPSP threshold for residents will be 1,000 kilowatt hours per month during the winter months of September to March and 600 kilowatt hours per month for the remainder of the year. As with the current TPSP, this will apply to all communities with electricity rates higher than in Yellowknife.
- The commercial power subsidy program will be discontinued as of April 1, 2011. A program targeting energy conservation and efficiency for commercial businesses will be implemented on April 1, 2011.
- Revised TPSP guidelines will be released in the fall of 2010 that ensure standard administration and program requirements are applicable to all electricity utilities.

The Taltson River hydro spillway.

Electricity Regulation

Maintaining an ongoing dialogue between the GNWT (responsible for policy development) and the PUB (responsible for policy implementation) will be critical to implementing change.

Legislative change to the *Public Utilities Act* will establish the long term approach to regulation. A proposal for legislative changes to the *Public Utilities Act* will be developed by April 1, 2011, that will:

- Clarify the authority of the GNWT to issue policy direction to the PUB;
- Remove prescriptive regulations to provide the PUB with flexibility in establishing rates and enable the PUB to fully implement the directions provided by the GNWT;
- Provide for standardized filing requirements for General Rate Applications; and
- Provide for enhanced reporting requirements of the Public Utilities Board.

Finally, the GNWT will direct the Public Utilities Board to develop intervener Cost Recovery Guidelines that will outline eligible costs and standard reimbursement rates associated with the regulatory process.

Industry Structure and NTPC Operations

Residents and businesses of the Northwest Territories believe there is value in owning and investing in a reliable, affordable and sustainable electricity system. Government actions relating to the role of the Government and relationships with utilities include:

- Existing NTPC service areas will be grandfathered and NTPC will continue as the primary owner of community generation and local distribution systems in communities where they are currently active.
- NTPC will be given the first right of refusal on those electricity power generation and distribution projects connected to the public grid and outside of community boundaries. Where appropriate, NTPC will be directed to develop projects in partnership with Aboriginal organizations and the private sector.

- Northland Utilities Ltd. will retain the right to their existing franchises; the GNWT expects that Northland Utilities will maintain their role in generation, transmission and distribution in the communities where they are currently active.
- The GNWT will issue direction to NTPC to clarify the government's expectation of the corporation. This direction will be formally conveyed in the fall of 2010.
- An accountability framework will be developed that describes roles, responsibilities and reporting and will address:
  - The need to improve corporate responsiveness as a core element of accountability;
  - Adequate policy support for those Ministers responsible for NTPC and the PUB;
  - A formal mechanism to strengthen GNWT policy direction to NTPC;
  - The role of MLAs in reviewing strategic direction, corporate planning and annual reporting; and
  - Corporate governance.
- NTPC will be directed to modify their overall communications strategy to incorporate the recommendations of the NTPC Review Panel related to communications and public relations.
- NTPC will be directed to develop approaches for more cooperative relationships with its major customers.
- NTPC will be directed to continue to pursue initiatives to conserve corporate energy use and promote energy conservation amongst consumers.
- NTPC will be directed to play a more active role in planning and implementation of alternative energy initiatives in order to ensure effective integration.
- The GNWT will report on all energy related activities of the GNWT, including those led by the group of GNWT power companies.

1. INTRODUCTION

The need for affordable power in NWT communities has long been a priority for the GNWT. The first principle cited in the 2007 Northwest Territories Energy Plan, Energy for the Future: An Energy Plan for the Northwest Territories, stated, *"Reliable and affordable energy should be available in all Northwest Territories communities."*

The Energy Plan also noted, *"The regulation of energy, the provision of subsidies and the way in which rates are established, need to be reviewed and all opportunities to reduce costs need to be explored."*

The Electricity Review process began in December 2008 when the GNWT released a discussion paper setting a context for a review of the electricity regulation, rates and subsidy programs in the NWT. The discussion paper asked residents and businesses two broad questions:

- What should be our vision for the future of electricity in the NWT?
- What problems must we overcome to make this vision a reality?

The discussion paper also raised a number of other questions, such as:

- Are there opportunities to reduce costs through changes to the structure of our electricity sector?
- Should the NWT move towards a more simplified and levelized electricity rate structure?

Following the release of the discussion paper, the GNWT appointed an independent Electricity Review Team. This panel conducted an extensive public hearing process across the NWT and more than 350 Northerners took the time to share ideas and opinions with the panel. The Review Team published a report on their public discussions, entitled *A Discussion with Northerners about Electricity.*

The Electricity Review Team's final report, entitled *Creating a Brighter Future for the Northwest Territories*, was submitted in September 2009. This report presented 39 recommendations regarding the future approach to the NWT electricity system.

At the same time, many residents, the NWT Association of Communities and Members of the Legislative Assembly were asking for a review of the Northwest Territories Power Corporation (NTPC). Premier Roland, as Minister Responsible for NTPC, appointed an independent panel to conduct an operational review of NTPC. This panel examined the operational efficiency, corporate efficiency and mandate of NTPC, releasing its report in January 2010.

This document presents the GNWT comprehensive response to both reviews. The NTPC and the Electricity Review Panels both produced a great deal of information on the history, fundamental economics and challenges and opportunities facing the NWT electricity system. Consequently, the comprehensive response of the GNWT is focused on actions, organized as follows:

i. Vision and Principles;
ii. Electricity Rates;
iii. Affordability and the Territorial Power Subsidy Program;
iv. Electricity Regulation; and
v. Industry Structure and NTPC Operations.

The title of the GNWT response, *Efficient, Affordable and Equitable: Creating a Brighter Future for the NWT Electricity System*", reflects the key principles – or themes – of the GNWT comprehensive response.

In addition to the recommendations provided in both reviews, subsequent input from a number of communities and key stakeholders was also considered.

The NTPC Review and the Electricity Review both provided substantial background and discussion on the issues addressed in this GNWT comprehensive response. The focus of this response is therefore on the GNWT's commitment to actions and what these actions mean for NWT community residents and businesses. This includes the expected impact on community electricity rates.

2. VISION AND PRINCIPLES

The NTPC Review and the Electricity Review both highlighted the need for safe, reliable and affordable electricity in NWT communities. Both reviews also highlighted the lack of economies of scale as NWT electricity loads are relatively small and spread out over vast distances. Administrative, emergency response and technical support systems should not be duplicated through the establishment of numerous electricity companies in the NWT. A territory-wide electricity system is required to ensure the system is as efficient as possible. Over the long-term, as reflected in the NWT Energy Plan and the Greenhouse Gas Strategy, a sustainable NWT electricity system should utilize more local sources of energy and displace the use of imported diesel for electricity generation.

Vision for the NWT Electricity System

Safe, reliable and affordable electricity will be available through a territory-wide electricity system that is efficient, reflects the essential nature of electricity services for NWT communities and promotes energy conservation.

To support and further define this vision, below are six principles that will serve as a guide with respect to future GNWT decisions and actions related to the NWT electricity system.

Principle #1

Recognizing the essential nature of electricity services in NWT communities, community residents and businesses should have a comparable level of access to affordable electricity services.

Electricity service is clearly essential in NWT communities. In our harsh climate, extended power outages have the potential to cause great hardship. Reasonable access to electricity is a fundamental requirement in the economic and social development of our communities. All communities deserve an opportunity to succeed. Future decisions and actions of the GNWT need to ensure a comparable level of affordability in NWT communities.

Economies of Scale
Fixed asset costs and the cost of administrative, technical, and emergency response systems support the production of electricity. Sharing these costs over a greater volume of sales reduces the per-unit cost of production, thereby maximizing economies of scale.

Thermal Community
This term refers to NWT communities with diesel or natural gas electricity generation. Norman Wells and Inuvik are currently the only NWT communities that utilize natural gas powered electricity generation.

Hydro Community
This term refers to NWT communities that benefit from legacy hydroelectric generation. Most of this generation is the result of leveraging the power requirements of past mining development in the NWT. These communities are Fort Smith, Fort Resolution, Hay River, Enterprise, Behchokǫ̀, Dettah and Yellowknife.

Principle #2

Affordable electricity is best achieved through energy conservation and an efficient electricity system that utilizes local sources of energy for electricity generation.

Many NWT communities are reliant on imported diesel for electricity generation. Currently, diesel generation remains the cheapest, most reliable method of electricity generation in remote communities. In the long term most agree diesel is going to become increasingly expensive from an economic as well as an environmental perspective.

As reflected in the *GNWT Energy Priorities Framework* (www.nwtenergy.ca), displacing imported diesel is a key priority. Energy conservation and efficiency measures provide the immediate response to reducing our reliance on imported diesel. The 16th Legislative Assembly has made an unprecedented financial commitment towards advancing energy conservation and efficiency in NWT communities. This includes the establishment of regional Arctic Energy Alliance offices to support community efforts in energy conservation and efficiency, enhancements to cash incentive programs for residents and communities to reduce their own energy use, and support for renewable energy projects including wind, hydro and biomass (i.e. wood pellet boilers).

Principle #3

The GNWT will play a leadership role in developing new energy technologies and local sources of electricity supply.

With the high cost of living in NWT communities, it is important that the additional costs of research and development of renewable energy and alternative technologies are not included in the electricity rate base. As discussed above, the GNWT is leading in this area and will continue to do so.

Principle #4

Community electricity services benefit from an efficient and unified territory-wide system that maximizes economies of scale.

To ensure long-term equitable access and comparable opportunities for all NWT community residents and businesses, continued effort in the development of an efficient territory-wide electricity system is required. Many of the actions identified in this report are aimed at efficiency and recognize the benefits in terms of safety, reliability and affordability from a territory-wide system. Both the NTPC Review and the Electricity Review did not identify any benefits that could be gained from further fragmentation of our small market with new electricity utility companies.

Principle #5

The development of NWT energy resources is best done in partnership with Aboriginal organizations.

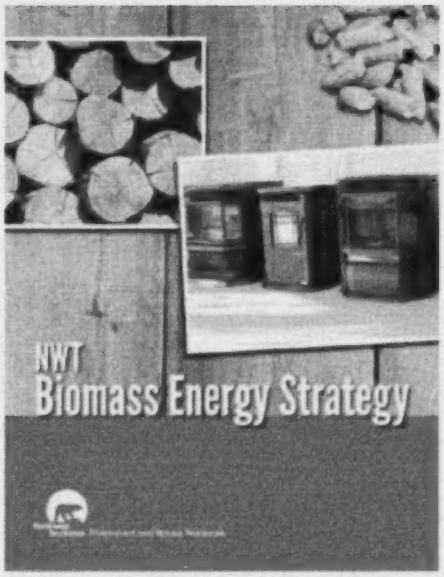
The government will continue to support Aboriginal equity positions in new electricity developments where there is a customer and business case.

Principle #6

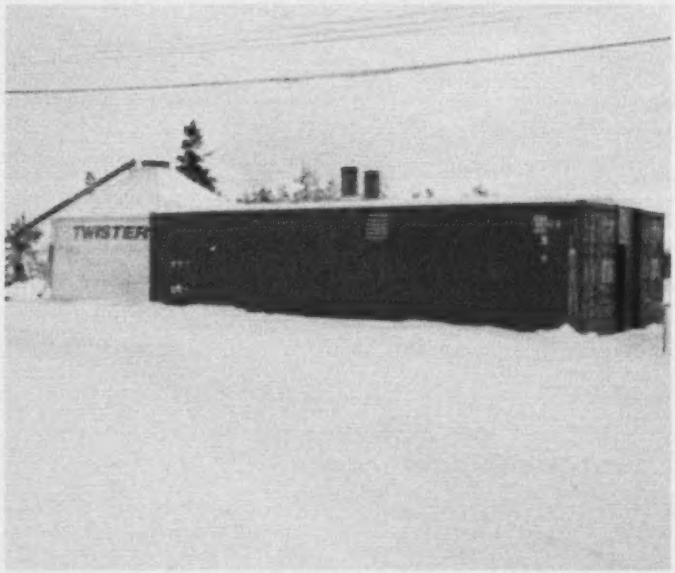
Electricity rates should be established through a transparent public process.

Through the actions identified in this report, the GNWT is taking a more active leadership role in establishing public policy related to electricity through enhanced direction and dialogue with NTPC and the Public Utilities Board. While policy direction will influence electricity rates, it is important that rates are established through a transparent public process led by the PUB.

Wood pellets that are used to fuel wood pellet facilities.



The NWT Biomass Strategy promotes the use of biomass energy in the NWT while ensuring that the local harvest of wood remains sustainable.



A wood pellet facility in Yellowknife that provides heat to a building as an alternative to diesel fuel.

3. ELECTRICITY RATES

Electricity rates are clearly the issue of greatest concern to NWT residents and businesses. It is the area with the most complexity, the source of much of the discussion at General Rate Application hearings and the area that people least understand. Given this, it is also the area where the GNWT is proposing the greatest change.

To provide some additional context, below is a chart reflecting electricity prices in the NWT and across North America. Prices in NWT communities such as Yellowknife and Fort Smith are comparable to a number of cities. For many other NWT communities, prices are much higher.

Table 4
North American Electricity Rate Comparison for Residential Customers

Location	Total Rate (¢/kWh)	Location	Total Rate (¢/kWh)
Fort Smith	19.07	New York	27.30
Yellowknife	26.47	San Francisco	26.40
Hay River	30.31	Boston	26.00
Inuvik	65.26	Houston	17.86
Tuktoyaktuk	76.23	Halifax	14.60
Fort Simpson	79.01	St. John's	12.50
Déljne	89.25	Toronto	12.00
Whati	90.69	Edmonton	10.70
Colville Lake	243.67	Winnipeg	6.94

Note: Information for North American cities provided by Hydro Quebec. Rates are based on a monthly electricity consumption of 1,000 kWh using April 1, 2009, electricity rates. The electricity rates include applicable rate riders and taxes.

Many of the recommendations of the Electricity Review Team revolved around electricity rates and actions to simplify this system. The GNWT has accepted a number of these recommendations. The rationale is discussed in the balance of this section.

The GNWT approach will ensure an efficient, affordable and equitable electricity system for all communities and businesses in the NWT. To ensure this, the GNWT will issue guidelines to the Public Utilities Board (PUB). Action #1 below summarizes the direction that will be given in the proposed guidelines. These guidelines will need to recognize that there are three electrical utilities in the NWT: the Northwest Territories Power Corporation (NTPC), Northland Utilities Limited (Yellowknife) (NUL (YK)) and Northland Utilities Limited NWT (NUL (NWT)). Detailed guidelines will be posted on the PUB website in June 2010.

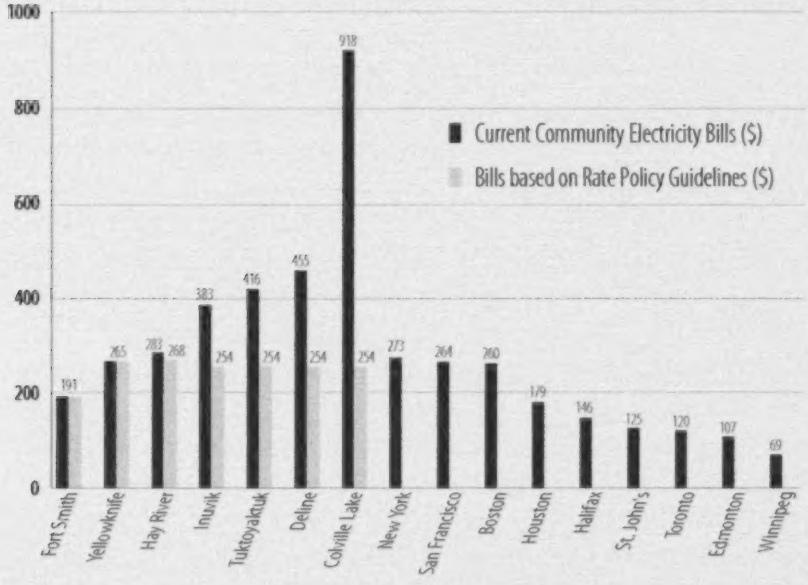
Action #1

The Government of the Northwest Territories will issue Rate Policy Guidelines to the Public Utilities Board that will:

- Set electricity rates on a zone basis to include the following zones: NUL (NWT) Hydro, NUL (NWT) Thermal, NUL (YK), NTPC Taltson, NTPC Snare, NTPC Norman Wells and NTPC Thermal.
- Share utility overhead costs among all of the rate zones, per utility, equally weighted by energy sales on a kilowatt hour basis.
- Reduce the return earned by the Northwest Territories Power Corporation in thermal communities over time.
- Establish territorial-wide fuel and low water rate riders.
- Ensure rates for the Northwest Territories Power Corporation customers following the initial rate adjustments will not exceed the rates and applicable rate riders (or the total rate) as of October 1, 2009.
- Implement the Rate Policy Guidelines by October 1, 2010, for the Northwest Territories Power Corporation.
- Maintain current rates to government customers, to facilitate the transition to a new rate structure.

These changes introduced by the Rate Policy Guidelines will reduce the price of power in many communities across the NWT. The chart below shows the impact of the changes. The chart is based on residential electricity bills for 1,000 kilowatts per month and a comparison to other cities in North America.

North American City and Community Electricity Bill Compensation (1,000 kWh)



Note: Information for North American cities provided by Hydro Quebec. Rates are based on a monthly electricity consumption of 1,000 kWh using April 1, 2009, electricity rates. The electricity rates include applicable rate riders and taxes.

The following sections provide the rationale for establishing the Rate Policy Guidelines and detail additional actions of the GNWT during the transition to a new rate system:

i. Establishment of Rate Zones
ii. Headquarters and General Operational Costs
iii. GNWT Transition and Ongoing Support of the NWT Electricity System
iv. Territorial Fuel and Low Water Rate Riders
v. Electricity Bills
vi. Detailed Electricity Rate and Bill Impacts

Plugging in for power.

3.1 Establishment of Rate Zones

The Electricity Review Team described the complex nature of the current community-based rate structure by noting, *"Some would argue there are really thirty-three utility companies operating across the NWT."* Maintaining the administrative and regulatory processes for thirty-three communities is inefficient. This structure also sets up community versus community arguments over cost allocation. Some communities are always well represented at regulatory hearings and others are not.

The GNWT agrees with the Electricity Review Team that a rational rate structure is a *"critical component to a long-term positive vision for the NWT."* Ensuring a sustainable electricity system for the future requires an efficient, territory-wide approach. Efficiency will be achieved through reducing the complexity of the existing system. The establishment of rate zones represents a key step towards this.

While the Electricity Review Team recommended the establishment of three rate zones, the GNWT will direct the Public Utilities Board to establish seven.

Community	Zone
Colville Lake, Nahanni Butte, Sachs Harbour, Jean Marie River, Gameti, Paulatuk, Wrigley, Tsiigehtchic, Tulita, Whati, Déljne, Łutselk'e, Fort McPherson, Ulukhaktok, Fort Good Hope, Tuktoyaktuk, Fort Liard, Fort Simpson, Aklavik, Inuvik	NTPC Thermal
Norman Wells	NTPC Norman Wells
Fort Smith, Fort Resolution (Hay River)	NTPC Taltson
Dettah, Behchokǫ̀, (Yellowknife)	NTPC Snare
Fort Providence, Dory Point/Kakisa, Wekweètì, Trout Lake	NUL (NWT) Thermal
Hay River, Hay River Reserve, Enterprise	NUL (NWT) Hydro
Yellowknife	NUL (YK)

This structure recognizes that there are three separate utilities and a mix of electricity generation and distribution operations. The NTPC Snare zone contains Yellowknife for the purposes of generation and transmission costs,

but Yellowknife is reflected in a separate zone when it comes to distribution by NUL (YK). Similarly, Hay River is reflected in the NTPC Taltson zone, but some of the transmission and all of the distribution costs are with NUL (NWT).

This approach also avoids the need for complex (and possibly contentious) inter-utility cash settlement mechanisms. For example, if all of the communities connected to the Taltson hydro grid were strictly considered as one zone, the NTPC rate in Fort Smith (about 17 cents per kilowatt hour) would need to be blended with that in Hay River (about 26 cents per kilowatt hour). This blended rate for the zone would likely be in the range of 21 to 23 cents per kilowatt hour. If NTPC were collecting 22 cents as opposed to 17 cents per kilowatt hour from Fort Smith consumers, a cash transfer from NTPC to NUL (NWT) would be required to equalize all costs across the zone. The establishment of a separate NUL (NWT) zone avoids this.

Much of the following detail regarding how this new system will work applies to NTPC communities and rates only. This new system will be implemented for NTPC communities on October 1, 2010. The GNWT will need to work with Northland Utilities companies to develop an approach that works for them.

Solar panels at a Northern airport.

Action #2

The approach to the Northlands Utility companies and electricity rates will be developed in consultation with NUL (YK) and NUL (NWT) by the fall of 2010.

3.2 Headquarter and General Operational Costs

The Electricity Review Team recommended that headquarter and general operational costs be allocated based on territory-wide electricity sales. The GNWT agrees with this recommendation.

The establishment of rate zones simplifies the current complexity and reduces the community versus community acrimony that can arise during rate hearings when allocating costs directly to individual communities. Allocating costs based on territory-wide electricity sales takes this a step further.

Head Office (Headquarter) and General Operational Costs

The head office and general operational costs include the salaries and operational costs associated with functions such as finance, human resources, information technology support, environmental management, engineering, and capital (such as the head office in Hay River). General operations costs include emergency systems, materials and supplies.

The current system is complex and places a large portion of these common costs on thermal communities. The existing methodology is heavily weighted to labour costs, was developed 15 years ago and, like all allocation methodologies, is subjective. When it was first implemented it reflected the level of support each community received from head office. This allocation was selected when staffing levels at thermal plants were higher than is the case today. A number of these plants had a full time operator as well as a part time operator. Due to technological advances, in many cases there is now only a part time operator.

If the current allocation method was updated and applied today, we would see a significant shift in costs from the smaller thermal communities to the larger centres. For example, Fort McPherson could expect to see a 55 per cent reduction in the costs allocated to it if the labour ratio was updated.

Technological advances and the change in the business of providing electricity also point to the need for a simplified methodology. It is evident that relatively little headquarters time and effort is required to plan the next small diesel engine in a remote community. Dealing with mining interests, public policy issues, and existing and future hydro development scenarios in the North and South Slave does require substantial time and effort.

In summary:

- The business of providing electricity services has changed and labour ratios in particular are no longer representative of community labour; and
- The current labour and weighted cost method is administratively complex and not easily understood.

Allocating administrative and general operational costs system-wide, on a kilowatt-hour basis, is equitable, transparent and a key step in simplifying the complex system in place today.

The impact of this change results in the shift of about $4 million in NTPC headquarter and general operational costs from smaller thermal communities to the larger communities served by hydroelectricity. The impact is approximately 1.7 to 1.9 cents per kilowatt hour, or $17 to $19 per month based on usage of 1,000 kilowatt hours. If this were the only change made to the system, residents and businesses in hydro communities would see an increase in their electricity bills. However, the changes that are being made will reduce costs across the system. In addition, GNWT transition support will ensure that electricity bills in hydro communities will not increase as a result of the proposed actions.

3.3 GNWT Transition and Ongoing Support of the NWT Electricity System

The public made it clear during the Electricity Review that costs are already too high in the Northwest Territories. The GNWT is committed that no one community or group of communities will bear the burden of implementing change.

To accomplish this, the GNWT will pay down existing NTPC stabilization fund (rate rider) balances. The total rate rider balances are projected to be approximately $6 million in October 2010. The GNWT will pay $6 million towards this balance over the 2010-11 and 2011-12 fiscal years. Rate riders will be removed from bills effective October 1, 2010, resulting in an impact in the range of 1.8 cents per kilowatt hour. This reduction will offset any increase from the reallocation of headquarters costs discussed in the previous section.

As an additional measure, the GNWT will forgo the annual NTPC dividend of approximately $3.5 million for the next two fiscal years. In future years this dividend level will be reduced based on an NTPC Dividend Policy. The reduced dividend in future years represents an ongoing commitment of at least $1.2 million per year.

NTPC returns in thermal communities will be limited under the Rate Policy Guidelines to a minimum interest coverage ratio for 2011-12 of 1.5 times interest earned. The province of Manitoba uses the times interest earned concept for its pricing. This model is very close to simple cost recovery, but allows for a small profit which can be put towards equipment maintenance and replacement.

This represents a total GNWT commitment of $13 million over two years and an ongoing commitment of at least $1.2 million as the result of lower returns being generated in thermal communities. As well, as a transitional measure, electricity rates to government customers are not being reduced. This maintains a degree of complexity in the system that will need to be addressed in future years, but provides for an estimated $2.6 million in revenue to support the transition to the new rate system.

Stabilization Fund
Stabilization funds record changes in variable costs when the costs are difficult to forecast and are beyond the control of the utility. These include costs, such as rising fuel prices. They work both ways – up and down. Costs are recovered or refunds provided over time.

Rate Rider
Rate riders are additional charges added to your electricity bill to recover costs covered in Stabilization Funds.

Times Interest Earned
Times interest earned is also referred to as the interest coverage ratio. It indicates how many times a company can cover its interest charges with its earnings before taxes.

These transitional provisions will allow the GNWT to ensure there is no increase in:

- Existing electricity rates, including those rates currently in place in hydro communities; and
- Base rates before 2012-13.

These actions represent a significant investment in fundamentally changing the electricity system and ensuring a comparable level of affordability across the NWT.

The substantial GNWT investment will be offset over the long term by an ongoing expenditure reduction in the GNWT Territorial Power Subsidy Program (TPSP). The reduced rates in thermal communities will save approximately $4 million in reduced subsidies. Expenditures for the TPSP in 2009-10 were approximately $11 million. This is further detailed in the next chapter on affordability.

Actions #3

As transitional support, the GNWT will pay down existing NTPC rate stabilization funds to ensure there are no negative impacts to electricity rates as a result of the new rate system.

As transitional support, the GNWT will forgo the annual NTPC dividend of $3.5 million for 2010-11 and 2011-12.

NTPC electricity base rates will remain unchanged until at least the 2012-13 fiscal year.

The GNWT will establish a Northwest Territories Power Corporation Dividend Policy to provide guidance to the Corporation in issuing dividends.

3.4 Establishment of Territorial Fuel and Low Water Rate Riders

Under the existing electricity rate system, rates are established by community. There are also individual community charges called rate riders to recover unexpected costs such as increasing fuel prices or costs associated with General Rate Applications. The Electricity Review Team recommended the number of rate riders be reduced and, where possible, consolidated.

Low Water Rate Rider
The low water rate rider is applied to recover costs associated with the back-up diesel generators being used when there is not a high enough water level to generate hydro-electricity at the required capacity.

Fuel Rate Rider
The fuel rate rider is applied to recover costs associated with fluctuations in the cost of diesel fuel.

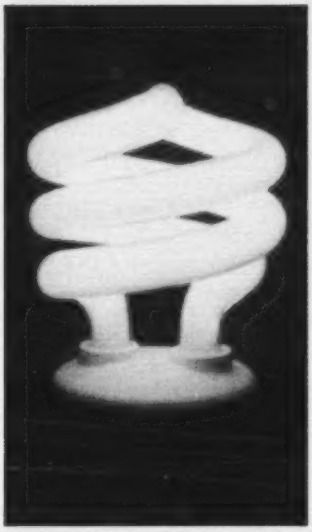
The establishment of seven rate zones will reduce the number of rate riders by reducing the number of community-based rates and rate riders. Establishing territorial fuel and low water rate riders will take this a step further. Fuel and low water rate riders applied across the entire territory, as opposed to individual zones, will reduce the number and complexity of rate riders and shares the risk associated with low water conditions or rising fuel costs across the territory. This is a major step towards simplifying the electricity system that will also significantly increase rate stability across the territory.

The GNWT is paying down the current fuel and low water stabilization fund balances, as discussed in the previous section. This means that rate riders will be set to zero, so there is no impact from this recommendation in the short term. In the mid-to-long term, the impact would depend upon future fuel prices or low water conditions.

As an example, consider the impact that a rise in the price of oil would have on the fuel stabilization fund, and therefore, fuel rate riders. An increase in the price of oil to $100 per barrel would result in an estimated revenue shortfall to the utility of approximately $2.5 million over a one year period. This revenue shortfall would need to be recovered. That impact would be felt almost exclusively in the thermal communities, including Inuvik and Norman Wells, and would result in about a 3.3 cent per kilowatt hour rider, on average. If that amount were spread over total NTPC sales, the rider is less than 1 cent per kilowatt hour.

Conversely, low water conditions, or a technical problem with a hydro facility, could result in increased fuel usage in hydro communities. Sharing these risks territory-wide adds to rate stability.

The GNWT supports this recommendation of the Electricity Review Team and will request that the Public Utilities Board identify other opportunities for reducing the complexity and number of rate riders in the future.



An energy efficient light bulb.

3.5 Electricity Bills

The Electricity Review Team noted that many of the residents they heard from were confused by their electricity bills, with multiple riders and a lack of clarity on what exactly residents are paying per kilowatt hour. This is not consistent with the principle of transparency. Other jurisdictions have electricity bills that provide clear information on cost and historical usage.

The PUB has made some recent changes that move in this direction, but there is more that can be done to clarify electricity usage and bills for consumers.

Action #4

The Public Utilities Board will be asked to work with the GNWT and electricity utilities to undertake an examination of options to simplify electricity bills aimed at enhancing public understanding of their total electricity costs and usage.

3.6 Detailed Electricity Rate and Bill Impacts

The electricity rate and system changes discussed above will have a substantial impact on the efficiency of administrative processes, consumers' understanding of their electricity bills, and in many cases, the cost of living.

All of the proposed changes will allow for the establishment of a thermal zone rate estimated at 49 cents per kilowatt-hour for residential customers and 42 cents for commercial customers (detailed in tables on pages 18 to 19).

Rationalizing the system and its costs will have a profound impact in thermal communities. Electricity costs are often the number one barrier to local economic development. For example, the electricity bill in a small community store can be up to $10,000 per month. Reducing the cost of living and increasing the prospects for local economic development will provide more residents and businesses with a level of opportunity that is more comparable to that in Yellowknife and communities south of Great Slave Lake.

Twenty-two communities in the NWT will see their electricity costs go down. To illustrate the impact of the changes on residents and businesses, the following tables have been provided.

I) Residential Electricity Rate Comparison
II) Commercial Electricity Rate Comparison
III) Residential Electricity Bills for 600 kilowatt hours
IV) Residential Electricity Bills for 1,000 kilowatt hours
V) Commercial Electricity Bills for 4,000 kilowatt hours

It should be noted that these rate and bill impact tables are estimated and representative of what electricity rates are expected to be once GNWT actions are implemented. The PUB will hold a process to implement the Rate Policy Guidelines during the summer of 2010. The PUB will remain responsible for setting rates. That said, the GNWT will participate in the PUB process during the summer of 2010 and be well positioned to respond if the PUB determines that the proposed changes may result in outcomes that are materially different than the schedules that follow.

1,000 kilowatt hours usage level was chosen as representative of what a family home with four or five members might use in winter (see the next chapter on Affordability for more details on electricity usage thresholds).

4,000 kilowatt hours is representative of a small to mid-sized business. Larger community co-ops can use up to 10,000 kilowatt hours and above.

Methodology for Rate Impact Sheets

The electricity rates shown include the energy charge and the applicable rate riders and do not include applicable taxes, fees or additional charges (ie. customer charge).

The electricity bills shown in the bill comparison sheets include the electricity (or energy) rate plus all applicable taxes, rate riders, fees and charges.

Residential Electricity Rate Comparison				
Community	Current Total Rate (¢/kWh)	Revised Total Rate (¢/kWh)	Rate Difference (%)	Rate Difference (¢/kWh)
NTPC Thermal Zone				
Colville Lake	230.27	49.00	-78.7%	-181.27
Nahanni Butte	166.40	49.00	-70.6%	-117.40
Sachs Harbour	152.13	49.00	-67.8%	-103.13
Jean Marie River	148.70	49.00	-67.0%	-99.70
Gameti	129.80	49.00	-62.2%	-80.80
Paulatuk	122.93	49.00	-60.1%	-73.93
Wrigley	137.92	49.00	-64.5%	-88.92
Tsiigehtchic	112.71	49.00	-56.5%	-63.71
Tulita	89.50	49.00	-45.3%	-40.50
Whati	84.57	49.00	-42.1%	-35.57
Déline	83.20	49.00	-41.1%	-34.20
Łutselk'e	78.53	49.00	-37.6%	-29.53
Fort McPherson	81.60	49.00	-40.0%	-32.60
Ulukhaktok	70.75	49.00	-30.7%	-21.75
Fort Good Hope	72.41	49.00	-32.3%	-23.41
Tuktoyaktuk	70.80	49.00	-30.8%	-21.80
Fort Liard	78.06	49.00	-37.2%	-29.06
Fort Simpson	73.45	49.00	-33.3%	-24.45
Aklavik	64.84	49.00	-24.4%	-15.84
Inuvik	60.35	49.00	-18.8%	-11.35
NTPC Norman Wells Zone				
Norman Wells	44.71	44.71	0.0%	0.00
NTPC Taltson Zone				
Fort Smith	16.36	16.36	0.0%	0.00
Fort Resolution	20.75	16.36	-21.2%	-4.39
NTPC Snare Zone				
Dettah	27.86	24.98	-10.3%	-2.88
Behchokǫ̀	24.98	24.98	0.0%	0.00
NUL (NWT) Thermal Zone				
Fort Providence	50.07	50.07	0.0%	0.00
Dory Point/Kakisa	99.21	99.21	0.0%	0.00
Wekweètì	101.33	101.33	0.0%	0.00
Trout Lake	85.38	85.38	0.0%	0.00
NUL (NWT) Hydro Zone				
Hay River System	25.68	25.68	0.0%	0.00
Enterprise	25.68	25.68	0.0%	0.00
NUL (YK) Zone				
Yellowknife	22.37	22.37	0.0%	0.00

Commercial Electricity Rate Comparison				
Community	Current Total Rate (¢/kWh)	Revised Total Rate (¢/kWh)	Rate Difference (%)	Rate Difference (¢/kWh)
NTPC Thermal Zone				
Colville Lake	200.26	42.00	-79.0%	-158.26
Nahanni Butte	214.65	42.00	-80.4%	-172.65
Sachs Harbour	142.58	42.00	-70.5%	-100.58
Jean Marie River	200.64	42.00	-79.1%	-158.64
Gameti	149.18	42.00	-71.8%	-107.18
Paulatuk	116.16	42.00	-63.8%	-74.16
Wrigley	147.48	42.00	-71.5%	-105.48
Tsiigehtchic	99.84	42.00	-57.9%	-57.84
Tulita	86.46	42.00	-51.4%	-44.46
Whatì	78.50	42.00	-46.5%	-36.50
Déljne	78.51	42.00	-46.5%	-36.51
Łutselk'e	73.02	42.00	-42.5%	-31.02
Fort McPherson	74.65	42.00	-43.7%	-32.65
Ulukhaktok	64.03	42.00	-34.4%	-22.03
Fort Good Hope	63.42	42.00	-33.8%	-21.42
Tuktoyaktuk	62.86	42.00	-33.2%	-20.86
Fort Liard	70.38	42.00	-40.3%	-28.38
Fort Simpson	64.35	42.00	-34.7%	-22.35
Aklavik	61.95	42.00	-32.2%	-19.95
Inuvik	53.68	42.00	-21.8%	-11.68
NTPC Norman Wells Zone				
Norman Wells	40.62	40.62	0.0%	0.00
NTPC Taltson Zone				
Fort Smith	12.88	12.88	0.0%	0.00
Fort Resolution	18.02	12.88	-28.5%	-5.14
NTPC Snare Zone				
Dettah	34.54	30.75	-11.0%	-3.79
Behchokǫ̀	30.75	30.75	0.0%	0.00
NUL (NWT) Thermal Zone				
Fort Providence[1]	44.24 / 39.40	44.24 / 39.40	0.0%	0.00
Dory Point/Kakisa[1]	88.41 / 70.49	88.41 / 70.49	0.0%	0.00
Wekweètì[1]	85.06 / 69.86	85.06 / 69.86	0.0%	0.00
Trout Lake[1]	75.51 / 58.58	75.51 / 58.58	0.0%	0.00
NUL (NWT) Hydro Zone				
Hay River System[1]	19.82 / 15.77	19.82 / 15.77	0.0%	0.00
Enterprise[1]	19.82 / 15.77	19.82 / 15.77	0.0%	0.00
NUL (YK) Zone				
Yellowknife	17.87	17.87	0.0%	0.00

[1] The electricity rate used for the first 2000 kilowatt hours per month / the electricity rate used for the remaining kilowatt hours.

Residential Customer Monthly Electricity Bill Comparison for 600 kWh Consumption				
Community	Current Total Bill (October 1, 2009)	Revised Total Bill	Bill Difference (%)	Bill Difference ($)
NTPC Thermal Zone				
Colville Lake	$165	$160	-3%	-$5
Nahanni Butte	$165	$160	-3%	-$5
Sachs Harbour	$165	$160	-3%	-$5
Jean Marie River	$165	$160	-3%	-$5
Gameti	$165	$160	-3%	-$5
Paulatuk	$165	$160	-3%	-$5
Wrigley	$165	$160	-3%	-$5
Tsiigehtchic	$165	$160	-3%	-$5
Tulita	$165	$160	-3%	-$5
Whati	$165	$160	-3%	-$5
Déljne	$165	$160	-3%	-$5
Łutselk'e	$165	$160	-3%	-$5
Fort McPherson	$165	$160	-3%	-$5
Ulukhaktok	$165	$160	-3%	-$5
Fort Good Hope	$165	$160	-3%	-$5
Tuktoyaktuk	$165	$160	-3%	-$5
Fort Liard	$165	$160	-3%	-$5
Fort Simpson	$165	$160	-3%	-$5
Aklavik	$165	$160	-3%	-$5
Inuvik	$165	$160	-3%	-$5
NTPC Norman Wells Zone				
Norman Wells	$165	$160	-3%	-$5
NTPC Taltson Zone				
Fort Smith	$122	$122	0%	$0
Fort Resolution	$150	$122	-18%	-$28
NTPC Snare Zone				
Dettah	$165	$160	-3%	-$5
Behchokǫ̀	$165	$160	-3%	-$5
NUL(NWT) Thermal Zone				
Fort Providence	$165	$165	0%	$0
Dory Point/Kakisa	$165	$165	0%	$0
Wekweètì	$165	$165	0%	$0
Trout Lake	$165	$165	0%	$0
NUL (NWT) Hydro Zone				
Hay River System	$171	$171	0%	$0
Enterprise	$171	$171	0%	$0
NUL (YK) Zone				
Yellowknife	$169	$169	0%	$0

Residential Customer Monthly Electricity Bill Comparison for 1,000 kWh Consumption				
Community	Current Total Bill (October 1, 2009) TPSP 700 kWh	Revised Total Bill TPSP 1,000 kWh	Bill Difference (%)	Bill Difference ($)
NTPC Thermal Zone				
Colville Lake	$918	$254	-72%	-$664
Nahanni Butte	$717	$254	-65%	-$463
Sachs Harbour	$672	$254	-62%	-$418
Jean Marie River	$661	$254	-62%	-$407
Gameti	$601	$254	-58%	-$347
Paulatuk	$580	$254	-56%	-$326
Wrigley	$627	$254	-59%	-$373
Tsiigehtchic	$548	$254	-54%	-$294
Tulita	$475	$254	-46%	-$221
Whati	$459	$254	-45%	-$205
Déljne	$455	$254	-44%	-$201
Łutselk'e	$440	$254	-42%	-$186
Fort McPherson	$450	$254	-43%	-$196
Ulukhaktok	$415	$254	-39%	-$161
Fort Good Hope	$421	$254	-40%	-$167
Tuktoyaktuk	$416	$254	-39%	-$162
Fort Liard	$438	$254	-42%	-$184
Fort Simpson	$424	$254	-40%	-$170
Aklavik	$397	$254	-36%	-$143
Inuvik	$383	$254	-34%	-$129
NTPC Norman Wells Zone				
Norman Wells	$333	$254	-24%	-$79
NTPC Taltson Zone				
Fort Smith	$191	$191	0%	$0
Fort Resolution	$237	$191	-19%	-$46
NTPC Snare Zone				
Dettah	$282	$254	-10%	-$28
Behchokǫ̀	$272	$254	-7%	-$18
NUL (NWT) Thermal Zone				
Fort Providence	$350	$259	-26%	-$91
Dory Point/Kakisa	$486	$257	-47%	-$229
Wekweètì	$514	$259	-50%	-$255
Trout Lake	$465	$259	-44%	-$206
NUL(NWT) Hydro Zone				
Hay River System	$283	$268	-5%	-$15
Enterprise	$283	$268	-5%	-$15
NUL (YK) Zone				
Yellowknife	$265	$265	0%	$0

Commercial Customer Monthly Electricity Bill Comparison for 4,000 kWh Consumption				
Community	Current Total Bill (October 1, 2009)	Revised Total Bill	Bill Difference (%)	Bill Difference ($)
NTPC Thermal Zone				
Colville Lake	$8,495	$1,829	-78%	-$6,666
Nahanni Butte	$9,099	$1,829	-80%	-$7,270
Sachs Harbour	$6,072	$1,829	-70%	-$4,243
Jean Marie River	$8,511	$1,829	-79%	-$6,682
Gamètì	$6,350	$1,829	-71%	-$4,521
Paulatuk	$4,963	$1,829	-63%	-$3,134
Wrigley	$6,278	$1,829	-71%	-$4,449
Tsiigehtchic	$4,277	$1,829	-57%	-$2,448
Tulita	$3,715	$1,829	-51%	-$1,886
Whatì	$3,381	$1,829	-46%	-$1,552
Déljne	$3,381	$1,829	-46%	-$1,552
Łutselk'e	$3,151	$1,829	-42%	-$1,322
Fort McPherson	$3,219	$1,829	-43%	-$1,390
Ulukhaktok	$2,773	$1,829	-34%	-$944
Fort Good Hope	$2,748	$1,829	-33%	-$919
Tuktoyaktuk	$2,724	$1,829	-33%	-$895
Fort Liard	$3,040	$1,829	-40%	-$1,211
Fort Simpson	$2,787	$1,829	-34%	-$958
Aklavik	$2,686	$1,829	-32%	-$857
Inuvik	$2,339	$1,829	-22%	-$510
NTPC Norman Wells Zone				
Norman Wells	$1,790	$1,790	0%	$0
NTPC Taltson Zone				
Fort Smith	$625	$625	0%	$0
Fort Resolution	$841	$625	-26%	-$216
NTPC Snare Zone				
Dettah	$1,535	$1,376	-10%	-$159
Behchokǫ̀	$1,376	$1,376	0%	$0
NUL (NWT) Thermal Zone				
Fort Providence	$1,810	$1,810	0%	$0
Dory Point/Kakisa	$3,253	$3,253	0%	$0
Wekweètì	$3,362	$3,362	0%	$0
Trout Lake	$2,917	$2,917	0%	$0
NUL (NWT) Hydro Zone				
Hay River System	$829	$829	0%	$0
Enterprise	$829	$829	0%	$0
NUL (YK) Zone				
Yellowknife	$867	$867	0%	$0

4. AFFORDABILITY AND THE TERRITORIAL POWER SUBSIDY PROGRAM

4.1 Residential Electricity Use

The GNWT's Territorial Power Subsidy Program (TPSP) is intended to provide communities and businesses with electricity at a cost comparable to that paid by consumers in Yellowknife. That means consumers in thermal communities outside the territorial capital pay the Yellowknife rate for the first:

- 700 kilowatt hours per month for residential customers; and
- 1,000 kilowatt hours per month for small commercial customers.

Above these kilowatt hours, the customer pays the full market rate. In many communities, a family home in winter utilizing 1,000 kilowatt hours per month would be currently incurring very high monthly power bills, ranging from over $400 to $700 per month.

Northerners told the Electricity Review Team that everyone should have access to a minimum level of electricity service. In response, the Electricity Review Team recommended:

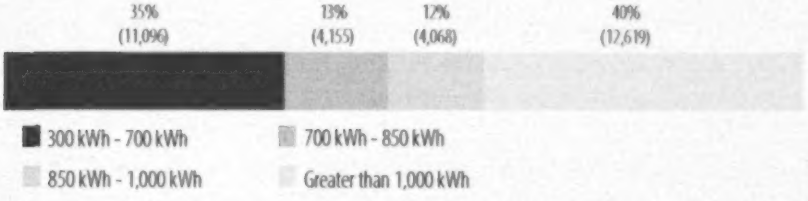
- Increasing the TPSP threshold for residential customers from 700 kilowatt hours per month to 850 kilowatt hours per month from October until March; and
- Reducing the TPSP residential threshold to 600 kilowatt hours per month for the rest of the year.

Analysis done on electricity usage in Yellowknife shows increasing the TPSP threshold during the winter makes sense. The question is how much of an increase is needed?

Territorial Power Subsidy Program
A program delivered by the Government of the Northwest Territories that currently subsidizes community residents for their first 700 kilowatt hours per month to the electricity rate in Yellowknife.

In considering an average family household's electricity usage in Yellowknife, the GNWT considered the following information:

Yellowknife Winter Residential Electricity Usage Distribution (excluding customers using less than 300 kWk)



NOTE: Electricity bills under 300 kilowatt hours per month have been excluded, as they are likely for apartments, garages or other smaller structures and are less likely for family homes.

The information presented in the chart above reflects the distribution of residential electricity usage in Yellowknife based on the total number of electricity bills in Yellowknife between October 1 and March 31, not including customers using less than 300 kilowatt hours of electricity per month. Conclusions reached from this information include:

- **40%** of Yellowknife customers use over 1,000 kWh per month during the winter.
- Over **50%** of Yellowknife customers use more than the Electricity Review Team's proposed TPSP level of 850 kilowatt hours.

Action #5

Effective 2010, the GNWT will establish a TPSP winter threshold of 1,000 kilowatt hours from September to March, and 600 kilowatt hours per month for the remainder of the year. The reference rate will remain the price of electricity in Yellowknife.

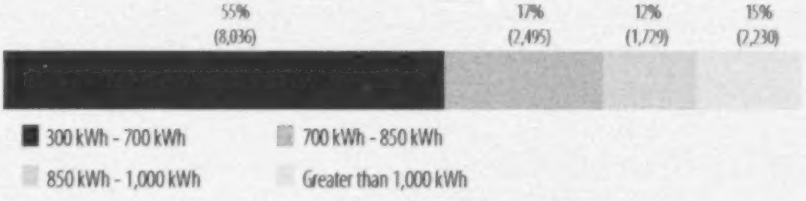
The 1,000 kilowatt hour threshold provides residents in communities with a comparable level of access to electricity as enjoyed in Yellowknife. Asking families outside of Yellowknife to restrict their monthly winter consumption to a level below that enjoyed in Yellowknife is not consistent with the principle of ensuring an equitable system for all NWT residents. Recognizing winter starts in September in many communities, the new threshold will be in place from September 1 to March 31.

Some people may believe increasing the threshold will lead to increased electricity use. In some cases, this may happen. However, with a thermal rate-zone price in the range of 49 cents per kilowatt hour of electricity, many communities are likely to remain motivated to minimize usage. Also, other cold-climate jurisdictions such as Newfoundland, Yukon, Nunavut and Manitoba use a variation of the 1,000 kilowatt hour threshold during the winter months for their electricity pricing or subsidy programs.

Examining the Yellowknife market addresses the issue of an equitable level of access to electricity. What really matters is how changes to the threshold affect communities outside of Yellowknife that rely on the TPSP.

To review the adequacy of the electricity thresholds in thermal communities, the GNWT reviewed the following information:

NTPC Thermal Zone Winter Residential Electricity Usage Distribution (excluding customers using less than 300 kWh)



NOTE: Electricity bills under 300 kilowatt hours per month have been excluded.

The information in the charts above reflects the distribution of residential electricity usage in NTPC Thermal Zone communities based on the total number of electricity bills for the communities between October 1 and March 31, not including bills of less than 300 kilowatt hours. In these communities:

- The current TPSP threshold of 700 kilowatt hours subsidizes **55%** of winter bills.
- The Electricity Review Team's proposed 850 kilowatt-hour threshold will subsidize **72%** of customers in these communities.
- The GNWT's proposed TPSP threshold of 1,000 kilowatt hours would capture **85%** of customers in these communities.

During summer, Northerners enjoy many hours of daylight and have traditionally used significantly less electricity. Because of this, the Review Team recommended adopting 600 kWh per month as a summer TPSP threshold. The GNWT will implement this lower threshold.

The GNWT believes in the principle discussed at the beginning of this report: *"Affordable electricity is best achieved through energy conservation and an efficient electricity system that utilizes local sources of energy for electricity generation"*. The 16th Legislative Assembly has made an unprecedented level of investment in energy conservation and efficiency programs. It has also substantially increased support to the conservation-oriented agency, Arctic Energy Alliance (AEA). New programs have been introduced and the AEA will soon have offices established in Inuvik, Norman Wells and Fort Simpson. While this work will continue, the issue of electricity affordability today must still be addressed.

4.2 Commercial Power Subsidy Program

Northerners told the Review Team the high cost of power to local businesses was passed on to consumers through increased prices of goods and services. This practice was noted as a key contributor to the territories' high cost of living.

The Review Team also noted that the GNWT's commercial power subsidy program should be replaced with a targeted commercial energy-efficiency program. As only 1% to 4% of NWT businesses qualify for the GNWT's commercial subsidy program, it has been largely ineffective. Direct support for businesses to make energy conservation and efficiency investments is required.

Action #6

The commercial power subsidy program will be discontinued effective April 1, 2011. A program targeting energy conservation and efficiency for businesses will be implemented on April 1, 2011.

The new commercial rates recommended by the GNWT will greatly benefit commercial customers. As seen in the table on page 22 even small- or medium-sized businesses utilizing 4,000 kilowatt hours per month will see a substantial drop in their monthly power bills under the new system.

4.3 Other Changes to the Territorial Power Subsidy Program

The Electricity Review Team made a number of other recommendations concerning the TPSP:

- Limit access to the TPSP to communities in the thermal zone;
- Establish standard program delivery requirements, including pro-rating the subsidy for electricity bills that are for periods longer or shorter than 30 days (NTPC already does this); and
- The monthly customer charges and, where they exist, franchise fees collected by municipalities (only in Yellowknife and Hay River), should not be included in the TPSP calculation.

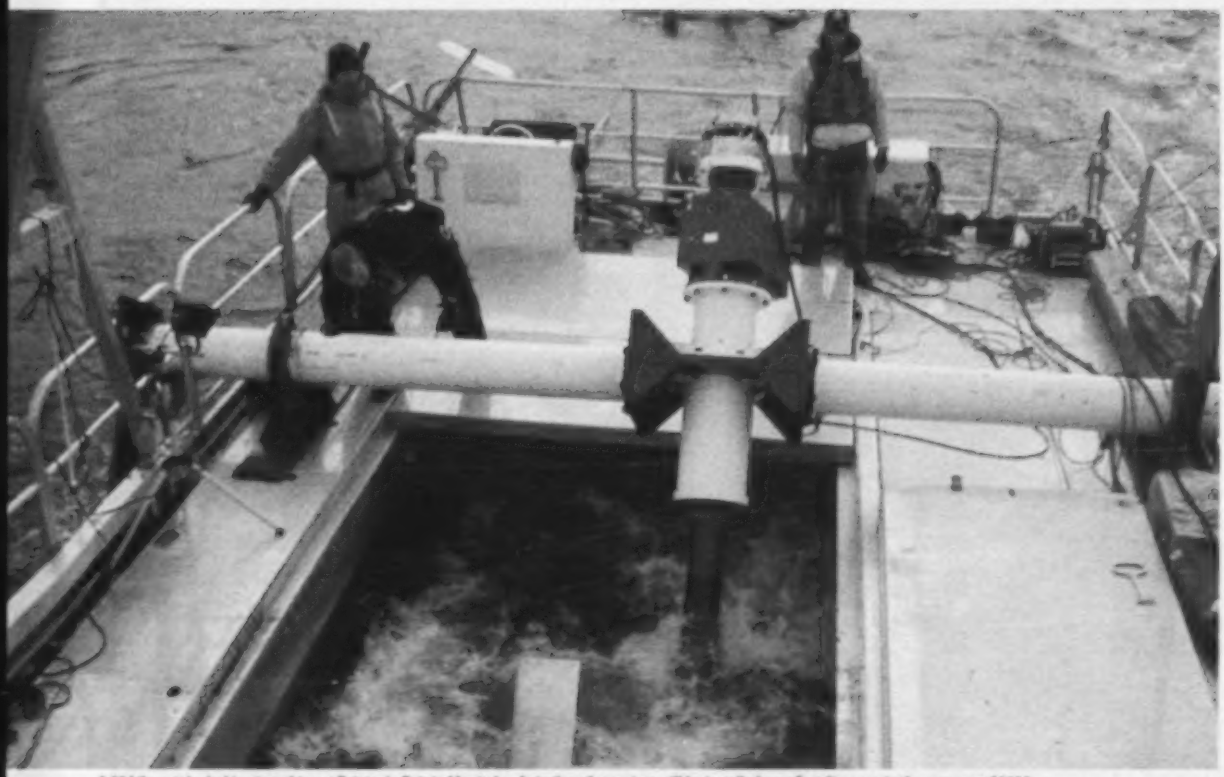
As consistently mentioned, equity and affordability are key considerations in the GNWT approach to the TPSP. As such, all communities where rates are higher than in Yellowknife will remain eligible for the TPSP. The GNWT will implement the Review Team's other TPSP administrative recommendations.

Action #7

Revised TPSP guidelines will be released in the fall of 2010 that ensure standard administration and program requirements applicable to all electricity utilities.

Pro-Rating the Application of the TPSP

Pro-rating describes the concept of proportional distribution. For example, the current TPSP threshold of 700 kWh is to be applied to monthly bills, or a 30 day billing period. If a customer has a billing period of 35 days, the TPSP should be applied for 812 kWh.



A 25 kilowatt hydrokinetic turbine at Pointe du Bois in Manitoba. A similar pilot project will be installed near Fort Simpson in the summer of 2010.

An aerial picture of the Taltson hydro facility.

The introduction of the draft Hydro Strategy is the latest step in the GNWT's comprehensive and strategic approach to energy planning.

5. ELECTRICITY REGULATION

In their report, the Electricity Review Team highlighted the need to maintain a transparent public process for establishing electricity rates and recommended the continued operation of the Public Utilities Board (PUB). The GNWT agrees with the need for a transparent public process and the PUB will continue to be responsible for regulation of the electricity sector under the *Public Utilities Act*.

A row of transmission lines.

5.1 Legislative Proposal to Amend the *Public Utilities Act*

The Electricity Review Team recommended that the *Public Utilities Act* be reviewed and that changes be made to:

- Increase the authority of the government to issue policy direction to the PUB;
- Permit the PUB to utilize additional approaches to electricity rate setting;
- Strengthen reporting requirements of the PUB;
- Establish minimum filing requirements for General Rate Applications; and
- Permit the GNWT to establish the rate of return target for NTPC within hydro zones.

The GNWT agrees with the above recommendations, with the exception of having the GNWT set the rate of return target for NTPC within hydro zones.

The Electricity Review Team noted that there is a need for clarity with respect to the ability of the government, as elected representatives of the public, to provide policy direction to the PUB. The GNWT agrees that should the government wish to advance particular interests, such as a new approach to electricity rates or a particular emphasis on renewable energy technologies, it should be able to do so.

Permitting more flexibility in electricity rate setting and establishing standardized filing requirements for GRAs makes sense and will support increasing the efficiency of the current system.

With respect to the GNWT establishing rates of return, the PUB has indicated to the GNWT that they intend on examining options for a formula approach to establishing the rate of return. This appears to be a reasonable approach, will reduce the amount of discussion (and consultants) at General Rate Application hearings, and again, is consistent with the GNWT's efforts to bring more efficiency to the system.

Actions #8

The Government of the Northwest Territories will develop a proposal for legislative changes to the *Public Utilities Act* by April 1, 2011 that will:

- Clarify the authority of the Government to issue policy direction to the Public Utilities Board;
- Remove prescriptive regulations to provide the Public Utilities Board with flexibility in establishing rates and to enable the Board to fully implement the Government's directions;
- Provide for standardized filing requirements for General Rate Applications; and
- Provide for enhanced reporting requirements of the Public Utilities Board.

Intervener
Individuals, groups or stakeholders that participate in proceedings before the NWT Public Utilities Board.

5.2 General Rate Application Process and Intervener Costs

The PUB has the authority under the *Public Utilities Act* to cover the costs of those who intervene in the GRA process. The costs of interveners are typically the costs associated with using utility industry experts to prepare questions and submissions as well as appear on behalf of the intervener. The intervener totals its costs and applies to the PUB to be reimbursed. If the PUB agrees with the value of the intervention, it directs the utility that initiated the GRA process to pay the intervener's costs and collect its expenses through electricity rate adjustments.

The Electricity Review Team noted that the costs associated with interventions ($300,000 in direct costs for NTPC for the 2006-07 GRA) appeared high for the small size of the NWT market. They recommended that cost awards should be limited to non-tax-based communities and non-profit organizations. Organizations with the capacity to pay, such as tax-based communities, would fund their own regulatory interventions. The Review Team reasoned that this would ensure that interveners with substantial capacity are both timely and rigorous in keeping their interventions focused.

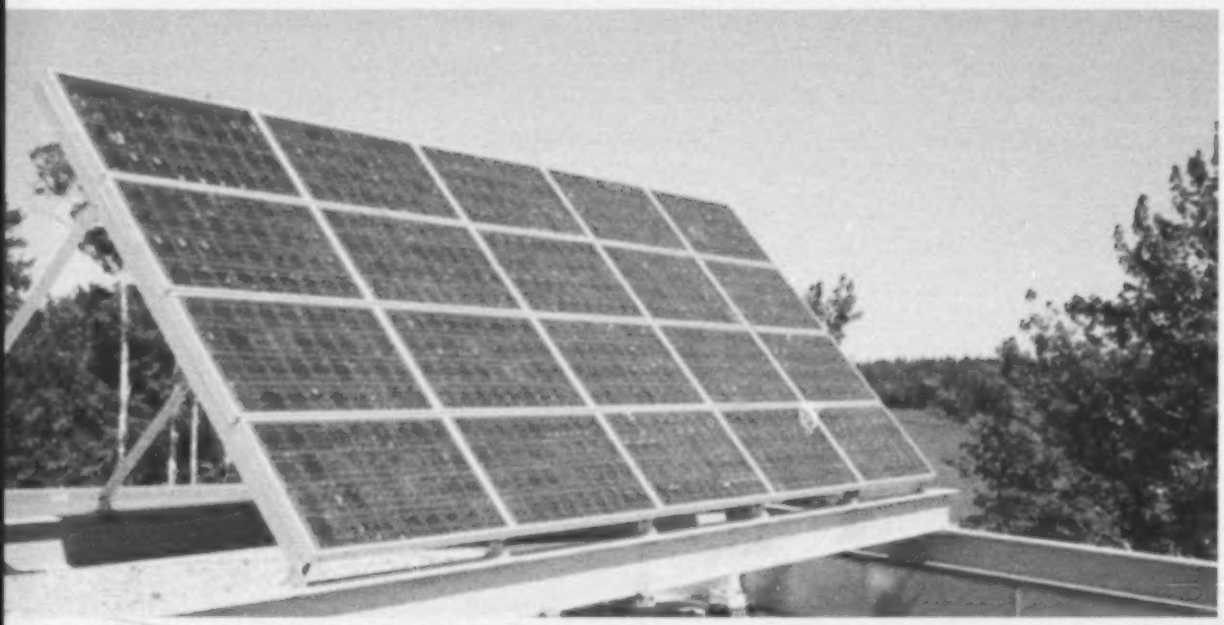
The GNWT recognizes the importance of communities having a voice in the process and the benefits from the analysis contributed by interveners. The actions identified in this GNWT response, such as simplifying the approach to the allocation of costs and the establishment of rate zones, will significantly reduce the process and complexity associated with the regulatory process. These changes are also expected to reduce the expenses associated with interveners. The new system should be able to support the intervener costs of all communities.

The PUB has begun to develop Cost Recovery Guidelines. These guidelines will outline eligible costs and standard reimbursement rates for lawyers, consultants and other expert witnesses, placing some additional controls on the costs associated with the regulatory process.

Action #9

The GNWT will direct the Public Utilities Board to develop Cost Recovery Guidelines that will outline eligible costs and standard reimbursement rates associated with the regulatory process.

The NTPC facility in Inuvik.



A solar panel located on the top of NTPC's Headquarters in Hay River.

6. INDUSTRY STRUCTURE AND NTPC OPERATIONS

6.1 Industry Structure

Northerners have expressed the view that there is value not only in owning the means to produce electrical power for the NWT, but also in making investments to ensure that the source of that power is reliable, affordable, and sustainable.

The NTPC Review Panel and the Electricity Review Team both expressed concern over further fragmentation of the NWT electricity market. Although NTPC is not the only electrical utility company operating in the NWT, it is active in 29 of our 33 communities.

People have clearly said that they want NTPC to have efficient operations, in part because efficiency helps to keep power affordable. The NTPC Review and the Electricity Review both noted the importance of economies of scale in pursuing maximum efficiency. Most of the costs of the electricity system are essentially fixed. This means that, regardless of changes in fuel prices or wages, consumers still need to pay for fixed costs such as generators, buildings, and emergency support systems.

In order for NTPC to be as efficient as possible, the corporation has to be operating at a size large enough to justify annual fixed and variable costs. It is more difficult for NTPC to be efficient if the market is divided between many companies performing different roles in different communities. If NTPC were to operate in fewer communities, or only provide back-up diesel generation, it would be more expensive for them to provide reliable services to Northerners. One way of keeping power affordable is to keep NTPC operating in as many communities as possible.

Action #10

Existing NTPC service areas will be grandfathered and NTPC will continue as the primary owner of community generation and local distribution systems in communities where they are currently active.

Improving economies of scale is challenging in a relatively small electricity market such as the NWT, where opportunities for expansion occur infrequently. When opportunities to expand do arise, the GNWT wants to be certain that NTPC is well positioned to potentially take advantage of those opportunities. This does not mean that each new project will be right for NTPC. It means that the GNWT wants to hear from its power corporation first to know whether or not it may be possible for NTPC to pursue new power projects.

The GNWT will continue to encourage partnerships with Aboriginal organizations, will consider a partnership approach with private companies, and recognizes that in some cases, the private sector will be better positioned to deliver on projects.

Action #11

NTPC will be given the first right of refusal on those electricity power generation and distribution projects connected to the public grid and outside of community boundaries. Where appropriate, NTPC will be directed to develop projects in partnership with Aboriginal organizations and the private sector.

Northland Utilities Ltd. is an active, long-standing company in the NWT and an integral part of the territorial electricity system. Just as NTPC is an important part of the communities where it operates, NUL is an important part of the communities where they are the sole provider of power or where they play a role in electricity distribution.

Action #12

Northland Utilities Ltd. will retain the right to their existing franchises; the GNWT expects that Northland Utilities will maintain their role in generation, transmission, and distribution in the communities where they are currently active.

6.2 NTPC Relationship with the GNWT

The NTPC Review noted concerns related to the accountability and communications between NTPC and the GNWT. A good governance structure ensures that proper oversight is in place, makes certain that officials in positions of leadership know their responsibilities, and enables our institutions to respond to the concerns of legislators and the public.

A small wind turbine powering a cabin in the NWT.

In 1988, the GNWT purchased the assets of the Northern Canada Power Commission and enacted legislation to create the Northwest Territories Power Corporation. Over the past twenty years the NTPC mandate, as written in legislation, has not undergone any major change. In 2007, major legislative change was enacted that made NTPC a subsidiary of the new Northwest Territories Hydro Corporation.

Within this context, it is not clear if past policy direction matches current expectations or fits with the modern operating environment. Future direction needs to be consistent with GNWT energy policy priorities and clear about the government's expectations of NTPC.

Action #13

The GNWT will issue direction to NTPC to clarify the government's expectations of the corporation. This direction will be formally conveyed in the fall of 2010, to coincide with the timing of the proposed electricity rate and system changes.

NTPC is a Crown corporation that reports to an arm's length Board of Directors appointed by and accountable to the Minister Responsible for NTPC. The Northwest Territories Hydro Corporation operates with the same Board of Directors as NTPC and the President of NTPC is also the President of the Northwest Territories Hydro Corporation.

Overall, the GNWT seeks to improve the accountability and responsiveness of NTPC. As noted, good governance needs to ensure roles and responsibilities are clearly defined and that the governance structure of NTPC enables effective communications between NTPC and the government and ensures that NTPC is positioned to respond to the concerns of legislators and the public.

Action #14

An accountability framework will be developed that describes roles, responsibilities and reporting, and will address:

- The need to improve corporate responsiveness as a core element of accountability;
- Adequate policy support for those Ministers responsible for NTPC and the PUB;
- A formal mechanism to strengthen GNWT policy direction to NTPC;
- The role of legislators in reviewing strategic direction, corporate planning and/or annual reporting; and
- Corporate governance.

The accountability framework will be in place by the fall of 2010, to coincide with GNWT policy direction to NTPC and proposed changes to the electricity system.

6.3 NTPC Operational Issues

A major criticism of NTPC is the corporation's poor communications and public relations. The Corporation has already taken some steps to improve communications and public relations. For example, NTPC has hired a Director of Corporate Communications, the NTPC website has been updated and enhanced, and a print advertising campaign is underway. This is a good start, but more work needs to be done to rejuvenate pride of ownership in our Crown corporation.

Action #15

NTPC will be directed to modify their overall communications strategy to incorporate the recommendations of the NTPC Review Panel related to communications and public relations.

The NTPC Review Panel, as part of its recommendations concerning communications and public relations, advised that NTPC improve its relations with Northland Utilities (NWT and YK). Northland Utilities is the largest private customer of NTPC. Northland Utilities is also a partner in delivering power, in part by being the distribution company in communities such as Yellowknife and Hay River.

The GNWT believes that NTPC operations could be enhanced by the two corporations meeting more frequently and sharing information. A better working relationship, at all levels, would help to improve generation, transmission and distribution quality and efficiency across the NWT, but particularly in communities where both corporations are active.

Action #16

NTPC will be directed to develop approaches for more cooperative relationships with its major customers.

Two other specific concerns about operations identified by the NTPC Review Panel related to aspects of the corporation's environmental record as well as the overall corporate approach to worker and public safety. Environmental protection and safety are areas that utilities should be constantly trying to improve. While overall the GNWT is satisfied with NTPC efforts related to environmental protection and safety, NTPC should continue to examine approaches related to these matters with the goal of continuous improvement.

6.4 Energy Conservation and Development of Emerging Energy Technologies

As part of the GNWT's Energy Priorities Framework, the government has programs and services to promote energy conservation and to help residents and businesses conserve energy. These programs and services are carried out through different agencies of government, including the GNWT group of power companies. The value of energy conservation is reflected in the *Northwest Territories Power Corporation Act*, which mandates NTPC "to undertake programs to conserve energy."

The GNWT continues to believe that energy conservation should be included in the mandate of an electrical utility company and, moreover, should be part of the mandate of a rate-regulated utility such as NTPC.

Action #17

NTPC will be directed to continue to pursue initiatives to conserve corporate energy use and to promote conservation amongst consumers; the nature and degree of this responsibility should be clarified to fit within broader GNWT energy policy.

Reducing dependence upon diesel fuel is a priority of the GNWT. Fuel is expensive to import and contributes to greenhouse gas emissions. One way to reduce diesel dependence is to research, develop and build technologies that generate power. Any alternative technologies being considered must be carefully chosen to ensure that they are sustainable in our northern environment, reliable and affordable for rate payers and the government.

The GNWT is currently undertaking a variety of energy initiatives related to the research and development of renewable energy and emerging technologies. The GNWT agrees with the NTPC Review and the Electricity Review that the risks and costs of experimenting with alternative technology selection and testing should not be passed on to electricity rate payers. Consistent with current practice, the GNWT will not pass on the costs of testing emerging energy technologies.

Along with the other components of the NWT's group of power companies, the government's rate-regulated utility – NTPC – has an important role in energy planning. NTPC must be open to an energy future in the NWT that includes power supplied through new energy technologies.

As the GNWT moves ahead with alternative energy technologies, the expertise housed within NTPC should be drawn upon during both planning and implementation. The role of NTPC is critical, because if planners have not fully conceived how an alternative energy project might fit within the overall power system, then the risk of project failure increases. NTPC should participate in energy-related strategic planning in order to offer its expertise and prepare the system as a whole for implementation.

Action #18

As the GNWT advances alternative energy initiatives, NTPC will be directed to play a more active role in planning and implementation in order to ensure effective integration of new technologies within NWT generation and distribution systems.

There is a considerable amount of activity being undertaken by the GNWT on energy matters, particularly through the Energy Priorities Framework. There are also numerous organizations involved in energy conservation and development including NTPC, the Arctic Energy Alliance, and various GNWT departments and agencies including Industry, Tourism and Investment, Environment and Natural Resources, the NWT Housing Corporation and Public Works and Services.

It is important that the GNWT report comprehensively on all energy initiatives to improve overall understanding and awareness of these activities.

Action #19

The GNWT will report on all energy related activities of the GNWT, including those led by the group of GNWT power companies.

The consolidation of GNWT reporting should not prevent all GNWT departments and agencies from reporting on their efforts and successes where appropriate.

7. CONCLUDING COMMENTS

The GNWT has committed to meaningful changes to our electricity system. NWT residents, businesses and communities have voiced their concerns about the cost of power, and expressed how high power costs act as a barrier to stability and prosperity. The GNWT heard these concerns and sought independent analysis and advice about the electricity system and our power corporation. The GNWT has responded to this advice by taking action, making significant change, and providing a commitment to invest $13 million to create a more efficient, affordable, and equitable electricity system.

As a result of the GNWT's commitment to action, families and businesses in many communities will see a substantial reduction in the cost of living, a key goal of the 16th Legislative Assembly. The actions of the government are intended to control the cost of power in the short term and set the context for long term affordable energy solutions.

Even with government action, the NWT still faces natural barriers to lower electricity costs. Distances between communities make electricity grids and transmission lines difficult to establish. Our long winters contribute to our high energy costs. Fuel prices are going up, our infrastructure is aging, and economies of scale cannot be found right away. Until there is a fundamental shift in the economics of NWT power generation, it is difficult to foresee a time when the North will pay electricity rates seen in southern jurisdictions.

These barriers must be acknowledged, but they cannot serve as excuses. Making our system more efficient will better position the NWT to respond to future challenges. Continued investment in renewable energy solutions will make our communities sustainable in the long term.

The NWT has an abundance of energy resources. Our hydroelectric potential – estimated at over 11,000 megawatts – is world class. Our natural gas will make its way to southern markets. Leveraging our energy resources could provide the means to change those fundamental economics and provide the North with affordable and sustainable energy for generations to come.

APPENDIX A: SUMMARY OF VISION, PRINCIPLES AND ACTIONS

Vision for the NWT Electricity System

Safe, reliable and affordable electricity will be available through a territory-wide electricity system that is efficient, reflects the essential nature of electricity services for NWT communities and promotes energy conservation.

Principles of the NWT Electricity System

Principle #1

Recognizing the essential nature of electricity services in NWT communities, community residents and businesses should have a comparable level of access to affordable electricity services.

Principle #2

Affordable electricity is best achieved through energy conservation and an efficient electricity system that utilizes local sources of energy for electricity generation.

Principle #3

The GNWT will play a leadership role in developing new energy technologies and local sources of electricity supply.

Principle #4

Community electricity services benefit from an efficient and unified territory-wide system that maximizes economies of scale.

Principle #5

The development of NWT energy resources is best done in partnership with Aboriginal organizations.

Principle #6

Electricity rates should be established through a transparent public process.

Actions

Action #1

The Government of the Northwest Territories will issue Rate Policy Guidelines to the Public Utilities Board that will:

- Set electricity rates on a zone basis to include the following zones: NUL (NWT) Hydro, NUL (NWT) Thermal, NUL (YK), NTPC Taltson, NTPC Snare, NTPC Norman Wells and NTPC Thermal.
- Share utility overhead costs among all of the rate zones, per utility, equally weighted by energy sales on a kilowatt hour basis.
- Reduce the return earned by the Northwest Territories Power Corporation in thermal communities over time.
- Establish territory-wide fuel and low water rate riders.
- Ensure rates for the Northwest Territories Power Corporation customers following the initial rate adjustments will not exceed the rates and applicable rate riders (or the total rate) as of October 1, 2009.
- Implement the Rate Policy Guidelines by October 1, 2010, for the Northwest Territories Power Corporation.
- Maintain current rates to government customers, to facilitate the transition to a new rate structure.

Action #2

The approach to the Northlands Utility companies and electricity rates will be developed in consultation with NUL (YK) and NUL (NWT), by the fall of 2010.

Action #3

As transitional support, the GNWT will pay down existing NTPC rate stabilization funds to ensure there are no negative impacts to electricity rates as a result of the new rate system.

As transitional support, the GNWT will forgo the annual NTPC dividend of $3.5 million for 2010-11 and 2011-12.

NTPC electricity base rates will remain unchanged until at least the 2012-13 fiscal year.

The GNWT will establish a Northwest Territories Power Corporation Dividend Policy to provide guidance to the Corporation in issuing dividends.

Action #4

The Public Utilities Board will be asked to work with the GNWT and electricity utilities to undertake an examination of options to simplify electricity bills aimed at enhancing public understanding of their total electricity costs and usage.

Action #5

Effective 2010, the GNWT will establish a TPSP winter threshold of 1,000 kilowatt hours from September to March and 600 kilowatt hours per month for the remainder of the year. The reference rate will remain the price of electricity in Yellowknife.

Action #6

The commercial power subsidy program will be discontinued effective April 1, 2011. A program targeting energy conservation and efficiency for businesses will be implemented on April 1, 2011.

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Action #9

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Action #10
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Action #17
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Action #18
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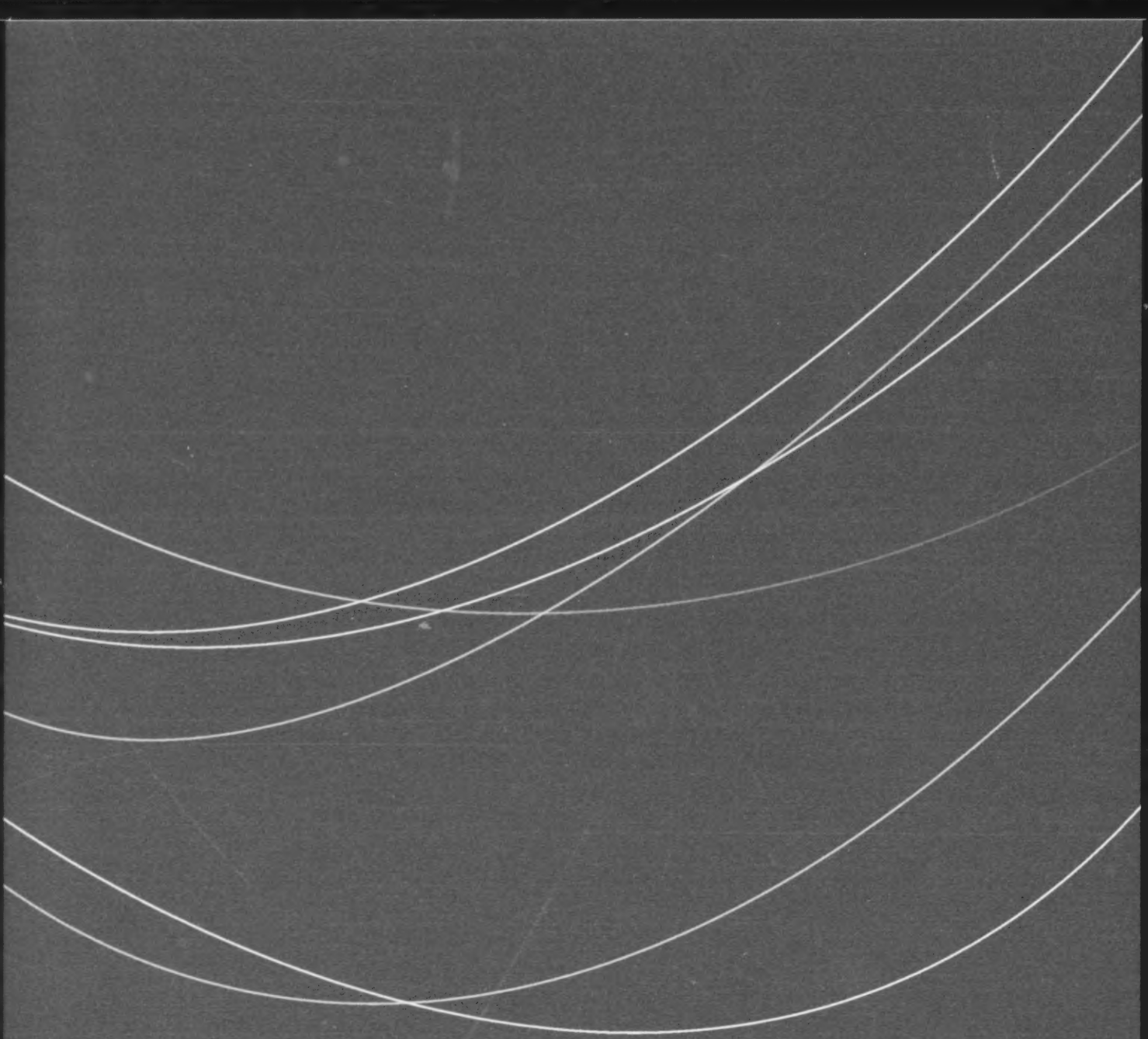

Efficient, Affordable and Equitable: **Creating a Brighter Future** for the Northwest Territories Electricity System

Northwest Territories Canada

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